

Message Text

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ACTION SS-25

INFO OCT-01 ADP-00 SSO-00 /026 W
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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 3733

C O N F I D E N T I A L NEW DELHI 4227

EXDIS

FOR SISCO FROM AMBASSADOR

E. O. 11652: GDS

TAGS: EFIN, IN

SUBJECT: RUPEE PROBLEM

REF: STATE 066162

1. AM MOST HEARTENED THAT YOU ARE THINKING OF A RUPEE NEGOTIATION ANNOUNCEMENT IN CONNECTION WITH THE DEPUTY SECRETARY'S VISIT.

WE ARE SHY ON SPECIFICS FOR THE TALKS, OR AT LEAST SPECIFICS THAT WE CAN AGREE ON. I THINK WE WANT TO HAVE REACHED ACCORD OF SOME SORT. THE BEGINNING OF RUPEE NEGOTIATIONS WOULD SEEM A VERY SOLID ACHIEVEMENT INDEED.

2. SAVE FOR AN EXCERPT IN THE TIMES OF INDIA FROM A FORTH-COMING BOOK ON THE SUBJECT (BY A CONSERVATIVE ECONOMIST WHO CONSIDERS OUR HOLDINGS A DEADLY DANGER TO INDIA) THE SUBJECT HAS QUITE DISAPPEARED FROM THE PRESS. THERE HAVE BEEN NO STATEMENTS OR BACKGROUNDER OF ANY KIND FROM THE EMBASSY. EVERYTHING SO FAR HAS COME FROM FINANCE MINISTER CHAVAN, FIRST IN A STATEMENT MADE IN WASHINGTON, AND THEN IN A GENERAL ACCOUNT OF HIS TRIP MADE ON HIS RETURN. IT IS OUR MOVE NOW, AND THE DEPUTY SECRETARY'S VISIT WOULD BE THE IDEAL TIME TO MAKE IT.

3. SINCE CHAVAN'S RETURN I HAVE HAD ONE MEETING WITH THE PRIME MINISTER'S SECRETARY TO DISCUSS THIS SUBJECT, FOLLOWING WHICH THE AID DIRECTOR MET ONCE WITH CHAVAN'S HEAD CIVIL SERVANT. BOTH MEETINGS WERE PRIVATE AND CONFINED TO GENERALITIES OR REMINISCIENCE.

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SCENCES, OUR OBJECT BEING ONLY TO ASSURE THE GOI THAT WE
WERE STILL VERY MUCH INTERESTED BUT WERE AWAITING INSTRUCTIONS.
NO FURTHER MEETINGS ARE SCHEDULED.

4. I HOPE YOU CAN FIND OR MAKE TIME TO LOOK AT THOSE
INSTRUCTIONS, AS I AM SURE THAT EVERY FREE LOADER IN WASHINGTON
IS TRYING TO GET HIS PET PROJECT FUNDED FREE FOR THE NEXT
QUARTER CENTURY, AND I EXPECT SOME ARE SUCCEEDING. HOWEVER,
I DON' T THINK THIS IS WHAT THE PRESIDENT HAS IN MIND. FRANKLY
I DON' T KNOW WHICH HAS SURPRISED ME MORE SINCE I HAVE BEGUN
TO LOOK INTO THIS SUBJECT -- THE CHUTZPAH OF THE DEMANDS OF THE
SCHOOL TEACHERS, LAB TECHNICIANS, CULTURE VULTURES, AND GENERALLY
SPEAKING THAT VAST WASHINGTONIAN TRIBE THAT DOES WELL OUT OF
DOING GOOD, OR THE DOCILITY OF THE INDIAN ADMINISTRATORS WHO
HAVE APPROVED THE EXPENDITURES.

5. SERIOUSLY, APART FROM ABSOLUTELY ESSENTIAL ITEMS SUCH AS
THE COSTS OF KEEPING MY SWIMMING POOL HEATED DURING WINTER MONTHS,
THERE IS AN AP#

YZYCNFQLBFJDQG LEVLPUAEHPL# OUT
HERE. MOST OF THE PROJECTS I SEE WOULD NOT SURVIVE ONE MORNING
IN THE O. M. B.

6. I RAISE THIS NOT OUT OF ANY HORROR OF GOVERNMENT WASTE --
WHICH OF US HAS NOT FROM TIME TO TIME TAKEN ADVANTAGE OF SAME --
BUT FROM A GENUINE FEAR THAT BUREAUCRATIC MINDS IN WASHINGTON
WILL NOT SEE THAT THIS IS FIRST AND LAST A POLITICAL QUESTION.

7. US OWNED RUPEES ARE NOT AN ASSET. THEY ARE A POLITICAL
LIABILITY. POTENTIALLY A VERY GREAT LIABILITY. IN THE AFTERMATH
OF A FEW YEARS OF SENDING TO INDIA WHEAT WE DIDN' T WANT DUMPED
ON THE AMERICAN MARKET WE END UP WITH THIS HUGE HOLDING OF THEIR
MONEY. ONE COULD HARDLY CONCEIVE A BETTER FORMULA FOR BECOMING
HATED. FORTUNATELY, THE RUPEES ARE A POLITICAL LIABILITY FOR
THE INDIAN GOVERNMENT AS WELL. THEY WANT TO PRESERVE THEIR
GOOD GREDIT RATING, AND ALSO TO GET RID OF THIS HUGE PYSCHOLOGICAL
LIABILITY. THEREFORE THEY ARE LIKELY TO BE WILLING TO COME TO
SOME AGREEMENT UNDER WHICH THEY AGREE TO PAY OUR EXPENSES FOR
A FIXED PERIOD OF TIME, WITH SOME COSMETIC DISPOSITION OF THE
REMAINDER. IN SOCIOLOGY IT IS CALLED PARETO OPTIMALITY. BOTH
SIDES WIN.

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8. BUT THE MOMENT WHEN THIS CAN HAPPEN COULD EASILY SLIP BY,
ESPECIALLY IF WE COME IN WITH TERMS THAT SEEM TO HUMILIATE THEM.

9. EVEN IF WE GOT SOMEWHERE AFTER A PROTRACTED NEGOTIATION,
IT WOULD DO DAMN LITTLE FOR MY PRESIDENT, WHO IS THE MAN WHO
SENT ME OUT HERE, AND WHOSE TERM OF OFFICE IS FIXED.

10. IF THE DEPARTMENT WISHES I WILL OF COURSE GO IN WITH THE
TREASURY DEPARTMENT'S PROPOSAL TO CONTINUE PAYMENTS FOR 27 YEARS.
AS I STATED IN MY CABLE TO PAUL VOLCKER, THIS IS MUCH BEYOND THE
TIME PERIOD ENVISAGED BY SAULNIER JUST THREE YEARS AGO. UNDER
HIS MINIMUM PROPOSAL INDIAN PAYMENTS WOULD END THE YEAR AFTER
NEXT. ON THE OTHER HAND, BY DROPPING OUT TITLE TWO TRANSPORTATION
PAYMENTS AND SQUEEZING THE FREE LOADERS, WE COULD GET THE TOTAL
ANNUAL PAYMENT DOWN TO A REASONABLE FIGURE. THE TREASURY HAS
LEGITIMATE CONCERNS AND I WILL BE FULLY RESPONSIVE ETCRVO##

QJBE XIURNKUKJCNSIBL# TO OURSELVES ON THIS. MOST OF THE
RUPEE REQUESTS THAT COME OVER MY DESK ARE FOR PURPOSES NEVER
ENVISAGED BY THE ORIGINAL LOAN TERMS. AND WE HAVE TO BE REALISTIC.
I FOR ONE ADMIRE THE CANADIANS. ON A PER CAPITA BASIS,
WHICH IS TO SAY DOLLARS PER CANADIAN CITIZEN, THEY HAVE GIVEN
INDIA ALMOST AS MUCH WHEAT AS WE HAVE BUT THEY HAVE GIVEN IT
OUTRIGHT-- FREE AND CLEAR AND CLEAN. THEY KNOW A THING OR TWO
UP NORTH, INCLUDING THE FACT THAT LENDING MONEY TO STARVING
PEOPLE IS NEITHER GOOD BUSINESS NOR GOOD NEIGHBORLINESS.

12. HANG IN THERE, JABBING JOE. WARM REGARDS
MOYNIHAN

NOTE BY OC/ T: NEW DELHI 4227 PARAS 5 & 10 (##) AS RECEIVED.
CORRECTION TO FOLLOW.

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*** Current Classification *** CONFIDENTIAL

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